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ISSN: 0975-833X

Available online at <http://www.journalcra.com>

SPECIAL ISSUE

International Journal of Current Research
Vol. 3, Issue, 6, pp.398-401, June, 2011

INTERNATIONAL JOURNAL
OF CURRENT RESEARCH

RESEARCH ARTICLE

CHALLENGES FACED BY THE SMALL AND MEDIUM ENTERPRISES (SMEs) IN MALAYSIA: AN INTELLECTUAL CAPITAL PERSPECTIVE

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ARTICLE INFO

Article History:

Received 14th March, 2011
Received in revised form
19th April, 2011
Accepted 21st May, 2011
Published online 26th June 2011

Key words:

Knowledge-based economy,
Intellectual capital,
SMEs.

ABSTRACT

In a knowledge based economy the role of small and medium enterprises is very critical for the economic development. The main thrust of this study was on the competitiveness of the SMEs in a knowledge-based economy. In addition, this study also explores the challenges which are facing the small and medium enterprises (SMEs) in Malaysia. The significance of the study will add the knowledge about the current issues relating with SMEs in Malaysia in intellectual capital perspective.

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INTRODUCTION

Small and medium enterprises (SMEs) are playing significant contribution in the economic development, social uplifting and political stability of every country. SMEs are diverse in nature. SMEs can be established for any kind of business activities in urban or rural area. It can be considered as a back bone of national economy (Peters and Waterman, 1982; Amini, 2004; Radam *et al.*, 2008). Due to significant contribution of SMEs towards the development of the economy, various agencies, particularly that of government, have given a lot of importance on the development of SMEs. In order to strengthen the SMEs a number of programs and facilities are provided to enhance their performance and competitiveness (Abdullah *et al.*, 2006). In this connection, the Malaysian government has persistently allocated resource for the development of SMEs. Malaysian government allocation for the development of SMEs has been increased from RM 1,561.6 million in the Eight Malaysia Plan to RM 2,160.2 million in the Ninth Malaysia Plan (Economic Planning Unit, 2006). Despite the huge financial support the government also has established other support programs, institutions and agencies such as SME Bank, SMECORP etc., to provide guidance, promotion, production efficiency, R& D activities, and product development (Central Bank of Malaysia, 2006; Ahmad and Seet, 2009).

Definition of SMEs in Malaysia

Generally there is no accepted worldwide definition of SMEs (Hooi, 2006; Omer and Ismail, 2009). However, in Malaysia, the definition of SMEs is mainly based on annual sales

turnover and total number of full time (Hashim and Abdullah, 2000, SEMCORP, 2008). According to Hashim (2000), SMEs in Malaysia can be segregated into three main sectors such as general business, manufacturing and agriculture. In Malaysia, according to Small and Medium Enterprises Corporation Malaysia (SMECORP, 2008), enterprises that employ between 50-150 full time employees are considered as medium while those that employ between 5-50 are called small and less than 5 are considered as micro enterprises. These SMEs are further categorized into medium-sized companies, small enterprises and micro-enterprises and this is as indicated in Table 1.

Role of SMEs in Economy

Malaysian economy has undoubtedly passed through a considerable transformation over the last few decades from agricultural based to industry-based. Now the economy is shifting from industry-based to a knowledge-based economy to achieve the vision 2020 and to become a developed economy (Ong *et al.*, 2010). In the Malaysian economy, the role of SMEs is considered as the backbone of the economy (Radam *et al.*, 2008). Malaysian SMEs, particularly the manufacturing sectors, are playing a very important role in the development of economy. In 2006, SMEs comprises of 99.2% of the business establishment in Malaysia and their contribution was 47.3% of the GDP (Thurasamy *et al.*, 2009). Moreover, the role of SMEs in job creation is also very important and vital. In 2006, SMEs employed 65.3% of the national workforce in Malaysia (Thurasamy *et al.*, 2009). According to Chelliah *et al.* (2010) the total number of SMEs in Malaysia could be in the range of 10,000 to 30,000 that were registered with the various ministries over the past decade. Small and medium enterprises are the most wide-

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